Bad Boy

APPLIANCES and FURNITURE LIMITED

Mel Lastman

Annual Report for fiscal year ended April 3, 1976

Bad Boy Appliances and Furniture Limited

Officers

Melvin D. Lastman
President
Willowdale, Ontario

Allen C. Lastman
Executive Vice-President and Secretary-Treasurer
Thornhill, Ontario

Ronald K. Lansing
Vice-President, Corporate Development
Islington, Ontario

Samuel A. Stenzler
Vice-President, Advertising
Downsview, Ontario

Marilyn Lastman
Assistant-Secretary
Willowdale, Ontario

Directors

Myrle W. Book
President, M. Book Management Limited
Weston, Ontario

Michael Curry
President, Cochran Murray & Wisener Limited
Toronto, Ontario

Jack Friedman, Q.C.
Toronto, Ontario

Ronald K. Lansing
Vice-President, Corporate Development
Islington, Ontario

Allen C. Lastman
Executive Vice-President and Secretary-Treasurer
Thornhill, Ontario

Marilyn Lastman
Assistant-Secretary
Willowdale, Ontario

Melvin D. Lastman
President
Willowdale, Ontario

John Shepherd

Corporate Offices

2770 Dufferin Street
Toronto, Ontario M6B 4C1

Transfer Agent and Registrar

The Royal Trust Company

Listed

Toronto Stock Exchange

Solicitors

Miller, Thompson, Sedgewick, Lewis & Healy
J. Friedman, Q.C.

= 361-0055

Auditors

Laventhol & Horwath
Chartered Accountants

Bankers

Toronto-Dominion Bank

Annual Meeting

Royal York Hotel,
Toronto, Ontario
September 30, 1976
2:00 p.m.

7 89-7761

Financial Highlights

	April 3, 1976	April 5, 1975	Net Percentage Change
Sales	**$68,483,494**	$48,498,585	+ 41.2
Earnings (Loss) before income taxes	**(197,088)**	2,341,462	−108.4
Net earnings (Loss)	**(108,872)**	1,190,314	−109.2
Net earnings (Loss) per share	**$ (.05)**	$ .60	−108.3
Number of shares outstanding	**2,000,000**	2,000,000	—
Total assets	**$23,514,440**	$23,147,628	+ 1.6
Shareholders' equity per share	**$ 3.26**	$ 3.39	− 3.8
Approximate number of employees	**600**	500	
Number of stores at year end	**38**	31	

Report to Shareholders

Total sales for the fiscal year ended April 3rd, 1976 were \$68,483,000 as compared to \$48,499,000 in the previous year.

Ontario

Total furniture and appliance sales increased 15.9% to \$56,206,000. Appliance sales achieved a strong recovery from the previous year, rising 18.5% to \$31,241,000 while furniture volume experienced a 12.7% increase to \$24,965,000.

Quebec

Total sales of the Quebec division (3 stores) in the first year of operation were \$8,720,000. The move into the Quebec market has proven to be a difficult undertaking for the Company. Management was beset with substantial operating difficulties as the shortage of well trained warehouse staff and other labour problems combined with heavy initial sales in the Montreal area caused many disruptions in the distribution of merchandise to customers.

Last September, management decided to close the Montreal warehouse and ship all merchandise from the Bethridge Road, Toronto facility. The Montreal warehouse was subleased in June.

Carpet Division

Early in the year, the Company acquired two carpet retail outlets in Metropolitan Toronto. Two additional stores were subsequently added and total sales for this division last year were \$3,557,000.

Earnings

The Company incurred a loss from operations of \$197,088 in the year under review. An income tax recovery of \$88,216 reduced the loss to \$108,872, which is equal to (\$0.05) per share as compared to a profit of \$1,190,314 or \$0.60 per share for the preceding fiscal year. All start-up costs incurred in connection with the opening of the new carpet division and the new stores in Montreal have been written off and are included in the Consolidated Statement of Income.

For the past five years we have relied on our computerized management information system in determining the gross profit margin for interim report purposes. That information until this past year had proved to be reliable and was supported by the annual audit. For this past fiscal year, the information received from the computer report was significantly different from the achieved gross margin as determined by the year-end audit.

We are presently working on a reconciliation between the actual gross profit margin for last year and the computer information.

Working Capital

Net working capital last year declined from \$3,055,712 to \$1,809,789. The Company's policy is to sell and lease back its real estate holdings and at year end there were approximately \$2 million of properties under development. It is expected that these properties will be sold in the current year and the net proceeds added to working capital.

Dividends

In view of the past unprofitable year, the Board of Directors decided to forego the July semi-annual dividend of 3 cents per share.

Expansion

Two stores are planned for the current year in Ottawa and Whitby, Ontario. The Ottawa store (68,000 square feet) was opened in August and sales to date have been most encouraging. The Whitby store (35,000 square feet) which is the first for the Company in this market will open this month. Both stores will include a carpet area.

Outlook

We do not anticipate a significant increase in sales this year and are taking positive steps to reduce operating expenses.

Your Board of Directors takes this opportunity to acknowledge the special effort of our staff and the continued support of our customers and suppliers in a most difficult year.

On behalf of the Board,

MELVIN LASTMAN
President

September 7, 1976

Consolidated Statement of Earnings and Retained Earnings

	For the fiscal years ended	
	April 3, 1976	April 5, 1975
Retail sales	**$68,483,494**	$48,498,585
Income from operations before the following charges	**$ 629,276**	$ 2,833,317
Interest on current bank indebtedness	**405,940**	126,937
Interest on long-term debt (excluding amounts capitalized)	**63,769**	—
Depreciation and amortization	**356,655**	186,005
Montreal start-up costs	**—**	178,913
Earnings (loss) before income taxes	**(197,088)**	2,341,462
Income taxes (recovered)	**(88,216)**	1,151,148
Net earnings (loss)	**(108,872)**	1,190,314
Retained earnings, beginning of year	**6,778,097**	5,728,959
	6,669,225	6,919,273
Tax paid to create tax-paid undistributed surplus	**21,176**	21,176
Dividend paid out of tax-paid undistributed surplus	**120,000**	120,000
	141,176	141,176
Retained earnings, end of year	**$ 6,528,049**	$ 6,778,097
Earnings (loss) per share	**$ (.05)**	$ .60
Fully diluted earnings (loss) per share (Note 4)	**$ (.05)**	$ .59

See accompanying notes.

Consolidated Balance Sheet

	April 3, 1976	April 5, 1975
Assets		
Current:		
Accounts receivable:		
Trade	$ 1,346,676	$ 1,162,847
Sale of real estate	—	738,812
Inventories, at lower of cost and net realizable value	13,818,890	9,756,434
Prepaid expenses	562,339	507,713
Income taxes recoverable	858,476	875,116
Real estate	—	4,479,069
	16,586,381	17,519,991
Real estate (Note 1)	3,936,163	2,916,986
Bonds, at cost	130,000	105,000
Fixed assets (Note 1)	2,508,026	1,902,438
Deferred charges (Note 1)	353,870	703,213
	$23,514,440	$23,147,628

See accompanying notes.

On behalf of the Board:

MELVIN LASTMAN, Director

ALLEN LASTMAN, Director

	April 3, 1976	April 5, 1975
Liabilities		
Current:		
Bank indebtedness (Note 2)	**$ 9,756,591**	$ 8,646,621
Customers' deposits	**792,535**	573,183
Accounts payable and accrued liabilities	**3,619,479**	4,660,368
Current deferred taxes	**177,339**	138,220
Current portion of long-term debt	**430,648**	445,887
	14,776,592	14,464,279
Long-term debt (Note 3)	**2,056,197**	1,666,513
Deferred income taxes (Note 1)	**149,412**	234,549
Shareholders' Equity		
Capital stock:		
Authorized:		
3,000,000 Common shares, no par value		
Issued:		
2,000,000 Common shares	**4,190**	4,190
Retained earnings	**6,528,049**	6,778,097
	6,532,239	6,782,287
	$23,514,440	$23,147,628

See accompanying notes.

Auditors' Report

To the Shareholders of
Bad Boy Appliances and Furniture Limited

We have examined the consolidated balance sheet of Bad Boy Appliances and Furniture Limited and its subsidiaries as at April 3, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the fiscal year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at April 3, 1976 and the results of their operations and the changes in their financial position for the fiscal year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Laventhol & Horwath
Chartered Accountants.

July 14, 1976.

Consolidated Statement of Changes in Financial Position

	For the fiscal years ended	
	April 3, 1976	April 5, 1975
Financial resources were provided by:		
Net earnings (loss)	($ 108,872)	$ 1,190,314
Add items not requiring a current outlay of working capital:		
Depreciation and amortization	356,655	186,005
Deferred income taxes (recovered)	(85,137)	142,549
Working capital provided by operations	162,646	1,518,868
Proceeds of mortgage financing	500,000	1,000,000
Gain on disposition of real estate holdings (Proceeds – $5,900,000)	282,455	—
	945,101	2,518,868
Financial resources were used for:		
Purchase of fixed assets net of long-term debt assumed (1976 – $Nil; 1975 – $288,016)	895,357	580,288
Bonds	25,000	75,000
Loss on disposition of real estate holdings (Proceeds – $525,000)	—	332,166
Acquisition of real estate, net of mortgages assumed of $649,384	—	777,713
Costs incurred on properties for development	1,019,175	—
Computer programming costs deferred	—	146,650
Reduction in long-term debt	110,316	745,888
Tax paid to create tax-paid undistributed surplus	21,176	21,176
Dividend paid out of tax-paid undistributed surplus	120,000	120,000
	2,191,024	2,798,881
Decrease in working capital	1,245,923	280,013
Working capital at beginning of year	3,055,712	3,335,725
Working capital at end of year	$ 1,809,789	$ 3,055,712

See accompanying notes.

Notes to Consolidated Financial Statements

April 3, 1976

1. Accounting policies:

The following is a summary of the significant accounting policies of the company:

i) Principles of consolidation:

These consolidated financial statements include the accounts of the company and its subsidiaries. All subsidiaries are wholly owned.

ii) Real estate:

It is the company's policy to select land sites for development. Upon completion of construction it has been the company's policy to sell the sites and lease back facilities for "Bad Boy" locations.

iii) Capitalization of carrying charges:

The company capitalizes interest and property taxes as part of the real estate costs. The following amounts have been capitalized during the year:

Interest	$414,957
Property taxes	23,839
	$438,796

iv) Fixed assets:

The company amortizes its leasehold improvements on a straight-line basis over the original terms of the leases. Other fixed assets are depreciated on the diminishing balance method at the rates indicated below.

	Rate	April 3, 1976	April 5, 1975
Leasehold improvements	—	$2,467,900	$1,792,876
Furniture and fixtures	20%	426,905	286,640
Automotive equipment	30%	45,924	62,334
Signs	35%	152,210	62,405
Computer	20%	206,366	206,366
		3,299,305	2,410,621
Accumulated depreciation		791,279	508,183
		$2,508,026	$1,902,438

v) Deferred charges:

a) It is the company's policy to amortize profits and losses on sale and leaseback transactions over the term of the lease commitments.

b) Costs incurred for computer programming are being amortized on a straight-line basis over three years.

The deferred charges are summarized as follows:

Sale and leaseback transactions:	
Losses incurred to April 5, 1975	$584,624
Profits earned during the year	282,455
	302,169
Amortization to date	48,066
Unamortized losses April 3, 1976	254,103
Computer programming costs	149,650
Amortization to date	49,883
	99,767
	$353,870

vi) Income taxes:

The companies charge operations with income taxes applicable to current earnings. Income taxes are deferred by claiming deductions for income tax purposes in years other than the year in which such deductions are charged to operations.

2. Bank indebtedness:

The bank indebtedness includes bank loans of $7,500,431 against which accounts receivable are pledged as collateral. Additional security is provided by demand debentures of $14,500,000 representing a first floating charge on all the assets and undertakings of the company.

3. Long-term debt:

	Total	Current Portion	Long-term
a) Mortgages payable	$ 394,384	$394,384	$ —
b) Draw received on mortgage commitments	500,000	—	500,000
b) Bank indebtedness	1,320,829	—	1,320,829
c) Balance due on conditional sales contracts	271,632	36,264	235,368
	$2,486,845	$430,648	$2,056,197

a) These mortgages bear interest at rates ranging from 7% to 9%.

b) The company has entered into agreements for mortgage financing for $2,900,000, $500,000 of which had been received prior to the year end. These funds will be used to reduce the bank indebtedness shown above on properties currently under construction.

Notes to Consolidated Financial Statements (Continued)

These mortgages are repayable in five years, maturing in the 1982 fiscal year with repayment terms based on a twenty-five year amortization schedule with monthly blended principal and interest payments. The interest rates and the monthly payments have not yet been determined.

c) Payments as to principal over the next five years on conditional sales contracts are as follows:

1977	–	$36,000
1978	–	34,000
1979	–	41,000
1980	–	48,000
1981	–	55,000

4. Stock options:

The company has reserved 100,000 shares for the granting of options to directors and key employees and have granted options in respect of 37,400 of such shares at the price of $7.75 per share (being the market value of the shares at the date of the granting of the options). All such options expire at various dates up to March 31, 1978.

No dilution of the current year's loss per share would result from the exercising of the above options.

5. Contingent liability:

A writ and statement of claim was issued against the company in April 1974 claiming approximately $650,000 as a result of a fire in a shopping plaza in which a "Bad Boy" store occupied space. $500,000 of the alleged loss is covered by insurance. The total claim is being defended.

6. Long-term leases:

Leases for premises expire at various dates up to 2005. Minimum rental payments for the 1977 fiscal year (exclusive of other occupancy charges and rent payable based on a percentage of gross sales) will amount to approximately $2,850,000.

7. Remuneration of directors and senior officers:

The aggregate direct remuneration paid or payable to directors and senior officers for the fiscal year ended April 3, 1976 amounted to $280,900 ($301,600 for the fiscal year ended April 5, 1975).

8. Anti-inflation legislation:

Under the federal government anti-inflation programme, which became effective October 14, 1975, the company is subject to controls on its prices, profits, compensation and dividends.

Store Locations

Metropolitan Toronto Area

37 Arrow Road
Weston

1400 Bathurst Street,
Toronto

188 Clarence Street,
Brampton

745 Danforth Avenue,
Toronto

3000 Danforth Avenue,
Toronto

900 Dufferin Street,
Toronto

2780 Dufferin Street,
Toronto

38 Dundas St. West,
Mississauga

1225 Dundas St. East,
Mississauga

3030 Dundas St. West,
Toronto

5230 Dundas St. West,
Islington

2665 Eglinton Ave. E.,
Scarborough

1704 Eglinton Ave. E.,
Toronto

1165 Kennedy Road,
Scarborough

2814 Lakeshore Blvd.,
Toronto

3711 Lawrence Ave. E.,
Scarborough

45 Overlea Blvd.,
Toronto

180 South Service Road,
Oakville

2737 Weston Road,
Weston

4783 Yonge Street,
Willowdale

10165 Yonge Street,
Richmond Hill

Other Ontario Centres

870 Algonquin Blvd. E.,
(Highway 101)
Timmins

2371 Barton St. E.,
Hamilton

215 Eugenie St. W.,
Windsor

385 Frederick Street,
Kitchener

540 Gardiners Road
Kingston

Hwy. #26 & #27,
(1 m. n. of Hwy. #400)
P.O. Box 850,
Barrie

34 Marshall St. E.,
North Bay

1620 Merivale Road,
Ottawa

1221 Cyrville Road,
Ottawa

450 Notre Dame Blvd.,
Sudbury

Willow West Plaza,
Silvercreek Parkway,
Guelph

CARPET CENTRES

3150 Dufferin Street,
Toronto

2480 Lawrence Ave. E.,
Scarborough

1855 Dundas Street E.,
Mississauga

190 Clarence Street,
Brampton

1221 Cyrville Road,
Ottawa

Montreal Area

3400 Côte Vertu Road,
St. Laurent, Quebec

6875 Jean Talon St. E.,
St. Léonard, Quebec

1875 Panama Street
Brossard, Quebec